

Report to: Overview and Scrutiny

Date of Meeting: 5th December 2023

Report Title: Financial Monitoring Report for 2023/24 – to end of September 2023 (Quarter 2)

Report By: Kit Wheeler
Chief Finance Officer

Purpose of Report

To provide a summary of the forecast outturn position for services at the end of Quarter 2 (September 2023).

Recommendation(s)

To note the contents of the report, and the actions within the conclusion and management action section.

Reasons for Recommendations

To assist the Council in understanding the financial position and particularly areas of over and under spend. Early indications of emerging overspends can allow management action to be targeted to those areas.

This monitoring assists in identifying areas for review in the production of the 2024/25 budget and the impact of the 2023/24 outturn on the reserves position.

Background

1. As part of the process of continuous improvement, and to provide more comprehensive financial monitoring, the format of the budget monitoring report continues to change.
2. Last year the monitoring report was revised to not only include the monitoring of direct service expenditure but to also include details on debt repayment (Interest and MRP), and Capital budgets.
3. Further developments have been implemented for 2023/24 including monitoring of the achievement of PIER savings agreed as part of the 2023/24 budget process, monitoring of the Reserves position and monthly updates to the Medium-Term Financial Plan (MTFP).
4. In February 2023, the Council agreed a revenue budget for 2023/24 with total expenditure of £17,754,575 funded by government grants, Council Tax, Business Rates, and contributions from reserves.
5. The table below shows the forecast outturn position at the end of September 2023 (Quarter 2).

Table 1: Forecast Revenue Outturn Position

Monitoring to end of September 2023	2023/24 Original Budget £	2023/24 Draft Outturn £	2023/24 Variance £	2023/24 Variance %	August Forecast Variance £	Change £
Head of Service Area						
Chief Finance Officer / S151 Officer	3,369,740	4,688,919	1,319,179	39.1%	1,357,201	(38,022)
Chief Legal Officer / Monitoring Officer	986,090	950,340	(35,750)	-3.6%	(25,350)	(10,400)
Head of Commercial Services & Developme	947,800	1,099,424	151,624	16.0%	102,730	48,894
Head of Community and Regulatory Services	861,830	898,690	36,860	4.3%	92,560	(55,700)
Head of Environment and Operations	5,038,340	5,150,092	111,752	2.2%	86,500	25,253
Head of Housing	6,426,235	7,452,207	1,025,972	16.0%	1,107,980	(82,008)
Head of People and Business Support	712,550	730,240	17,690	2.5%	15,378	2,312
Head of Strategic Programmes	1,976,880	2,278,850	301,970	15.3%	156,596	145,374
Property and Commercial Assets Manager	(4,992,890)	(5,371,370)	(378,480)	7.6%	(421,610)	43,130
Total Service Expenditure	15,326,575	17,877,392	2,550,817	16.6%	2,471,985	78,832
Minimum Revenue Provision (MRP)	945,000	904,100	(40,900)	-4.3%	(40,900)	0
Net Interest (Earnings) / Payments	1,483,000	1,481,500	(1,500)	-0.1%	(1,500)	0
Debt Repayment Costs	2,428,000	2,385,600	(42,400)	-1.7%	(42,400)	0
Total Expenditure	17,754,575	20,262,992	2,508,417	14.1%	2,429,585	78,832

6. Total Expenditure is forecast to be £2,508,417 over budget at year end. This is an increase of £78,832 on the overspend reported at the end of period 5 (end of August). The factors leading to this change in forecast are discussed in paragraph 12 below.

7. The overspend of £2,550,817 on Total Service Expenditure is offset in part by savings on MRP and Net Interest payments. Further details on the different elements are given below.

Total Service Expenditure

8. The 2023/24 Total Service Expenditure budget agreed by Council was £14,826,575. This figure includes the contingency budget which was initially set at £300,000 but is moved out to budget areas via a virement (budget movement), all contingency virement requests are approved by the Chief Finance Officer.
9. The Total Service Expenditure budget has increased by £500,000 since the budget was approved, as the targeted revenue saving from changes to the Capital Programme have been removed from the Corporate Management cost centre where it was being held and applied to the Interest payable/receivable and MRP budget lines. The revised Total Service Expenditure budget is now £15,326,575.
10. Following the Senior Management Restructure, the reporting setup for monitoring has changed. The distinction between Corporate and Operational Services has been removed and we now report under the 9 Head of Service areas.
11. Table 2 below details the current forecast outturn position for Total Service Expenditure.

Table 2: Revenue Direct Service Expenditure Position

Head of Service Area	2023/24 Budget	2023/24 Forecast Outturn	Variance	Trf to / (Use) of Reserves	2023/24 Outturn Variance
	£	£	£	£	£
Chief Finance Officer / S151 Officer	3,369,740	4,688,919	1,319,179	0	1,319,179
Chief Legal Officer / Monitoring Officer	986,090	950,340	(35,750)	0	(35,750)
Head of Commercial Services and Development	947,800	1,215,224	267,424	(115,800)	151,624
Head of Community and Regulatory Services	861,830	921,090	59,260	(22,400)	36,860
Head of Environment and Operations	5,038,340	5,486,792	448,452	(336,700)	111,752
Head of Housing	6,426,235	7,462,107	1,035,872	(9,900)	1,025,972
Head of People and Business Support	712,550	825,440	112,890	(95,200)	17,690
Head of Strategic Programmes	1,976,880	2,128,850	151,970	150,000	301,970
Property and Commercial Assets Manager	(4,992,890)	(5,371,370)	(378,480)	0	(378,480)
Total Service Expenditure	15,326,575	18,307,392	2,980,817	(430,000)	2,550,817

12. The forecast overspend on Total Service Expenditure has increased by £78,832 since last month (August 2023). The most notable variances causing this charge are:
- Forecast Increase of £145k in Development Management due to an absence of major applications.
 - Homelessness/Housing decreased by £82k
13. Historically, as part of the annual budget setting process a thorough and detailed analysis of the current year's budget is undertaken. This is then used to inform the remaining year's budget. As a result, the original budget was revised in line with

current and latest available information and forecasts. However, we will not be producing a revised budget going forward and instead will be monitoring and reporting throughout the year against the original budget. The original budget will however have virements (budget movements) between different areas, but the Total Expenditure budget will not change.

14. Appendix 1 provides a more detailed analysis of each directorate, and this report seeks to provide further narrative on the main variations identified.
15. At the time of writing, inflation continues to remain elevated and wage growth demands and energy costs are high. These factors are having a substantial impact on the Council's budgets and will lead to significant unavoidable additional expenditure which will need to be offset by savings from elsewhere within the budget or the use of our limited reserves.
16. The figures and estimates contained in this report were produced based on the latest available information, and as such could be subject to further change.
17. The 2023/24 staff pay rise is yet to be agreed. The current offer is £1,925 per Full Time Equivalent (FTE) or 3.88% whichever is greater. At the time of setting the budget an assumption of a 3% salary increase was made. The salary costs in this report assume that a pay rise equivalent to the current offer is accepted, anything above this will result in additional costs.
18. The unbudgeted pay rise will adversely impact all service budgets. These are however out of the direct control of the service budget managers. In some areas this overspend will be offset against savings, thus reducing the adverse impact in the short term. Where this is the sole impact individual narratives for each area have been removed to avoid repetition within the report itself.

Chief Finance Officer / S151 Officer

19. This area is forecasting an overspend of £1,319,179.
20. A senior management restructure was undertaken during 2022/23 and took effect from 1st April 2023. The budget for the new Senior Leadership Team was therefore not confirmed nor were details of posts. This budget has now been determined, and shows an overspend of £107,320.
21. Corporate Management costs is showing an overspend of £1,015,160. £50,000 of this is in relation to an insurance claim for felled trees with a preservation order. A PIER savings target of £1m was set when the budget was agreed in February 2023. Savings were not originally forecast to be achieved until Q4 once the initiatives of the Housing and Homelessness Taskforce started to take effect. The achievement of this saving has been made harder due to providers increasing their fees in line with inflation and delays in the delivery of social housing units.
22. Accountancy and Exchequer Services is showing an underspend of (£118,220) due to vacant posts.

23. Revenues and Benefits Service is showing an overspend of £210,319 due to a delay in the planned restructure of the service. This has led to the continuation of the temporary staffing structure and reliance on additional agency members of staff for longer periods than anticipated, coupled with additional demand being placed on the team to deal with extra grant schemes throughout the financial year. A full restructure is currently underway and will be concluded in Quarter three of this financial year.
24. Non-Distributed Costs is showing an overspend of £105,000 due to changes in the way actuaries calculate pension charges. The overspend will be offset by savings on salaries within individual cost centres. However, this saving may not be realised due to other overspends within departmental salary budgets.

Chief Legal Officer / Monitoring Officer

25. No major variances to report.

Head of Commercial Services and Development

26. This area is forecasting an overspend of £151,624 after reserve movements.
27. The Cliff railway is forecasting a £77,770 overspend due to the East Hill lift being closed for essential maintenance work until October. Initially loss of income was only anticipated for the first quarter.

Head of Community and Regulatory Services

28. This area is forecasting an overspend of £59,260.
29. No major variances to report.

Head of Environment and Operations

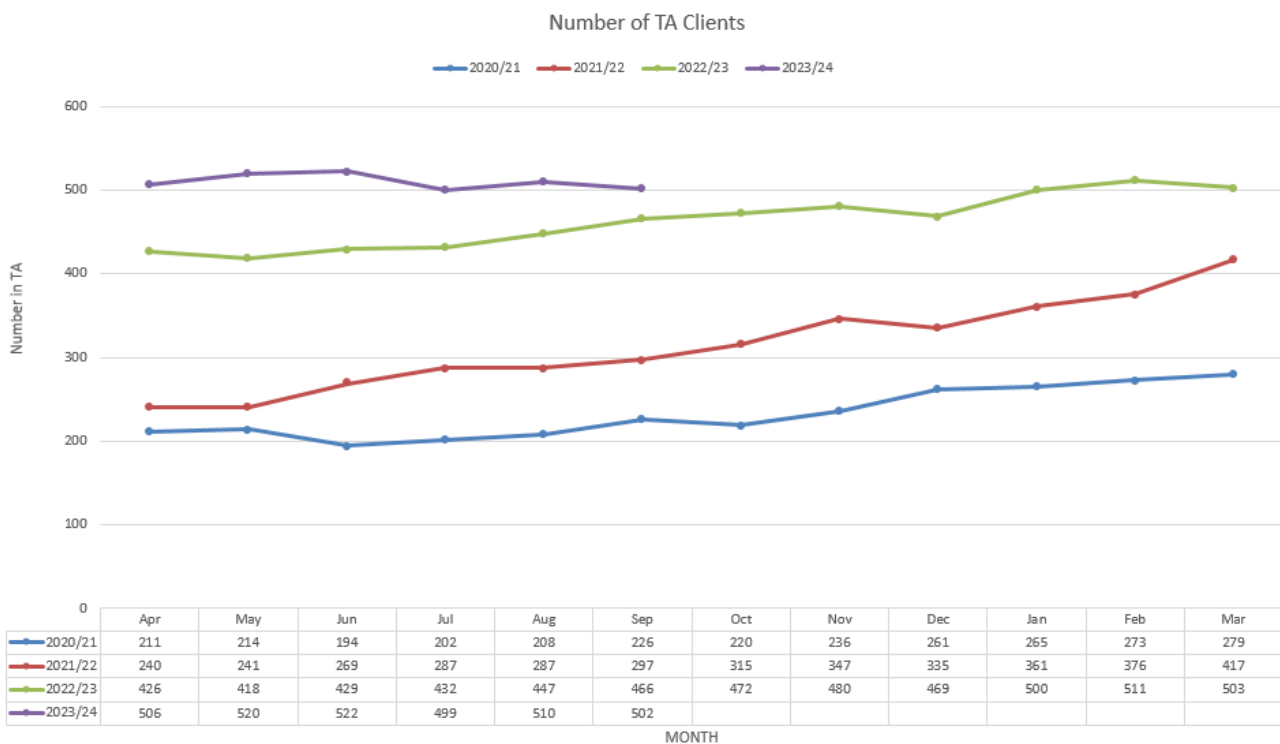
30. This area is forecasting an overspend of £111,752 after reserve movements.
31. The pay award for the Street Cleansing DSO team is forecast to be £78,310 more than the original budget.

Head of Housing

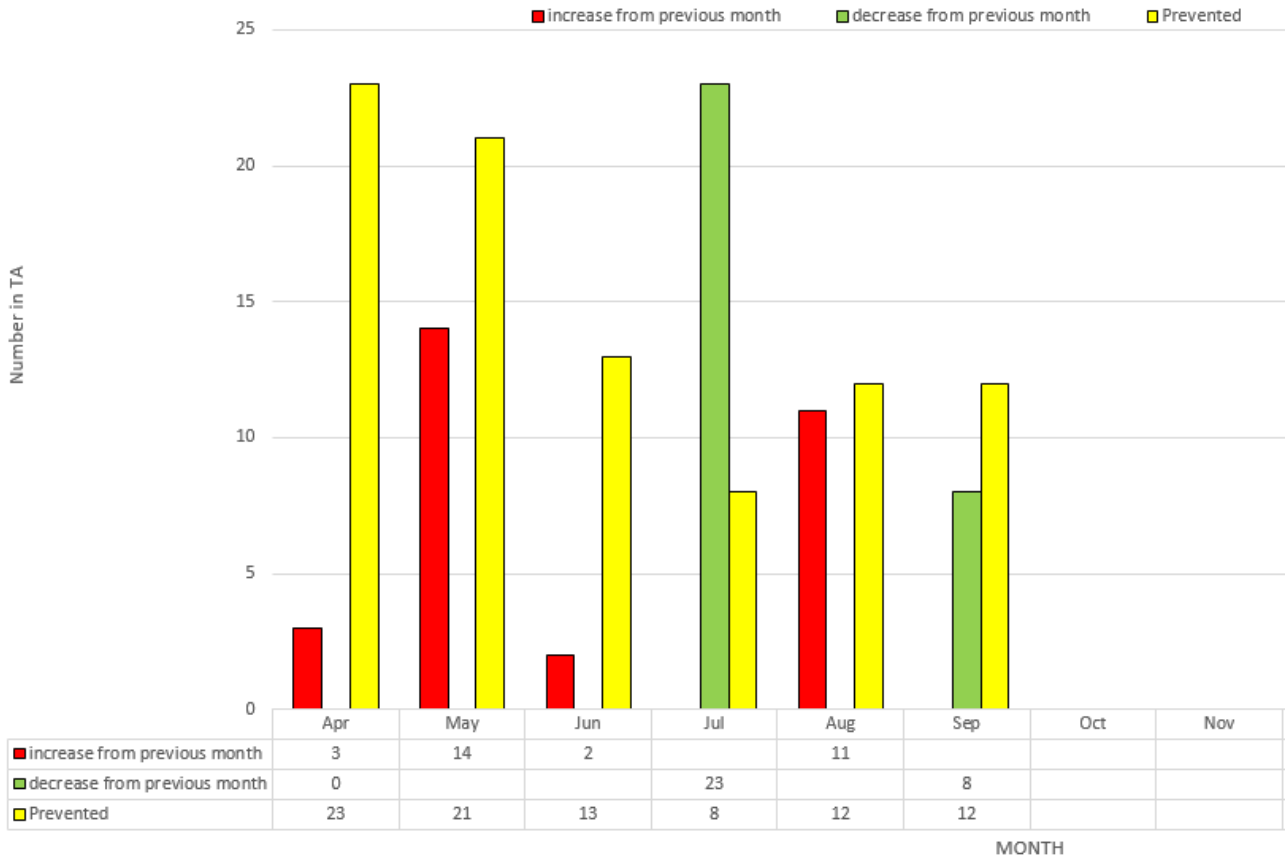
32. This area is forecasting an overspend of £1,025,970.
33. HBC owned properties is now showing income to be received from Housing Benefit (£166,590)
34. Homelessness (Temporary Accommodation) is forecasting an overspend of £1,146,200, despite numbers of individuals in TA reducing. There has been an

increase in provider costs. Storage & Removal costs remain high, although these costs can be reclaimed, it is unlikely to be repaid in full. Additional staff were recruited in July, to help reduce client numbers in Temporary Accommodation.

- 35. The Rough Sleeper budget is projecting an overspend of £70,000 due to the ongoing accommodation of people in temporary accommodation who otherwise would have returned to rough sleeping following the 'Everyone In' accommodation offer in response to the pandemic. We are not forecasting any additional spend in this budget as we have been able to help the 3 remaining people accommodated to secure alternative, more settled, accommodation and they have either already moved or in the process of doing so in the next few weeks.
- 36. Housing Renewal is projecting to underspend by £68,630 due to Disabled Facilities Grant contribution to staff costs.
- 37. To demonstrate the growth in demand for temporary accommodation two graphs have been provided below. The first graph shows the growth in the number of Temporary Accommodation clients over the current and past three years. The second graph shows successful preventions from entering Temporary Accommodation and the increase/ decrease from the previous month figure.



Number of TA Clients



Head of People and Business Support

38. This area is forecasting an overspend of £112,890. Of this £95,200 is to be used from the Repairs and Renewals reserve for works not completed last year mainly the replacement of the Boilers.

Head of Strategic Programmes

39. This service area is showing a forecasted overspend of £301,970. This is an increase from last month's report of £154,400 as Dangerous Structures has been transferred to this service area. This is a necessary overspend due to Battle Road works as approved by Ful Council and cost recovery is now being triggered. The previously reported overspend is being addressed through the service review.
40. Local Land Planning Management and Admin is showing an underspend of (£20,480) due to additional income from a major application for naming and numbering of streets.
41. Development Management is showing an overspend of £113,050. The service budget is predicated on the assumption that we will receive major applications during the year which require significant work which is funded in part by the fee paid by the applicant. The trend has been that the council has received at least one major application in each of the last few years. As there are currently no major applications in the pipeline, the budget forecast will show a reduction of £75,000 income. Officers are developing a proposal to encourage those who may be submitting their major applications to do so ASAP while the council has resources to assess them. There is also a £39,000 additional spend on legal fees required for the award of costs against the refusal of 777 The ridge.
42. Local Land Charges Register is showing an overspend of £56,500 as income is expected to be lower than budgeted. A detailed analysis will be undertaken as part of the service review and options to mitigate brought forward.
43. Dangerous structures work at Battle Road have now been completed and £154,400 has been spent to date this financial year. We are not anticipating any further expenditure. Cost recovery for this year, and previous years is now underway. (NB the Council took the action to remedy the dangerous structure in default following court action requiring the owners to undertake the works).
44. The budget of £150,000 for Renewable Energy is to be allocated to a new earmarked reserve.

Property and Commercial Assets Manager

45. This area is forecasting an underspend of (£378,480). In non-accounting terms this is a positive picture demonstrating the vitality of our factory rentals.
46. Unit Factories are showing an underspend of (£125,400) due to additional income from the new factory micro units at Churchfields currently (£51,000) and a combination of rent reviews and renewed leases which have taken place in the last few months (£90,000).
47. The Properties and Estates cost centre is showing an underspend of (£298,100) mainly due to rent reviews at Lacuna Place for the DWP (£260,000) and Pebsham Tip (£60,000). Unforeseen additional repairs of £50,000 are required this year. The rest of the balance is made up of other rent reviews that have occurred and a couple of write offs.

48. St Mary in the Castle is showing an overspend of £24,980 due to essential costs while the building is vacant.

Debt Repayment Costs

49. Table 3 below shows the debt repayment costs position. As discussed earlier in this report, the budgets have been revised for a £500,000 saving that was budgeted to be achieved from reduced expenditure on the capital programme.
50. Even with the £500,000 reduction in the budget, an underspend of £227,900 is forecast at year end. This is made up of a number of items which are discussed below.

Table 3: Debt Repayment Costs Position

Net Interest (Earnings) / Payments July Forecast - Period 5	Budget 2023/24	Forecast Outturn 2023/24	Forecast Year End Variance
Gross Interest Payable	2,436,000	2,435,000	(1,000)
Gross Interest Received	(899,000)	(1,085,500)	(186,500)
Net Investment Properties Income	(64,000)	(64,000)	0
Fees	10,000	10,500	500
Net Interest (Earnings) / Payments	1,483,000	1,296,000	(187,000)
Provision for the Repayment of Principal (MRP)	945,000	904,100	(40,900)
Total Debt Repayment Costs	2,428,000	2,200,100	(227,900)

Gross Interest Payable

51. The Council currently has 22 loans with the Public Works Loan Board (PWLB). These are a combination of maturity and annuity loans and are all at fixed rates, so the Council is protected from any rises in interest rates.
52. When setting the budget for 2023/24 a certain amount of borrowing was assumed to fund the capital programme. Due to delays and changes to plans in the capital programme the Council did not undertake additional borrowing at the end of 2022/23. This has resulted in a £375,000 budget virement being undertaken to reduce the budgeted expenditure on interest payable. This makes up part of the £500,000 capital programme revenue savings that was budgeted for.

Gross Interest Receivable

53. The Council currently has c£35m in investments. At the time of setting the budget interest rates were lower and expected to fall towards the end of the year. With inflation still being a cause of concern the picture now is less certain. Since the budget was set in February 2023 the Bank of England base rate has increased from 4.0% to 5.25% (as at 11th October 2023) and further increases may occur. This has resulted in a £75,000 budget virement being undertaken to increase the budgeted income from interest receivable. This makes up part of the £500,000 capital programme revenue savings that was budgeted for.

Net Investment Properties Income

54. The Council has a few properties categorised as investment properties. These do not include the various industrial units and retail parks that the Council owns which are categorised as operational assets. The net income (i.e., income after all costs have been deducted) from investment properties is forecast to be £64,000 which is on budget with no variance.

Fees

55. No major variances to report.

Provision for the Repayment of Principle (MRP)

56. The Council is required to make a Minimum Revenue Provision (MRP) payment in respect of its borrowing – to ensure the debt liability is repaid over an appropriate period.
57. As there was no borrowing in 2022/23 to fund the capital programme an underspend is forecast on the provision for MRP payments. This forecast includes making an additional £80,000 Voluntary Revenue Provision (VRP) payment which will be used in future years to offset increases in the MRP as a result of the revised MRP policy. This has resulted in a £50,000 budget virement being undertaken to reduce the MRP budget. This makes up part of the £500,000 capital programme revenue savings that was budgeted for.
58. It is anticipated that there will be a total underspend of £40,900 on MRP payments that need to be made in 2023/24 compared to the revised budget.

Capital Programme

59. The Council approved a gross capital programme budget of £29,322,000 for 2023/24. The adjusted Capital Budget for 2023/24 is £19,130,000 once carry forwards and budget revisions amounting to (£8,987,000) have been allowed for and £19,038,000 has been moved to future years. This differs from what was reported in July due to the inclusion of forecast for Towns Fund projects.
60. The capital programme has been reviewed and where possible programmes have been pushed back to future years in order to aid the revenue budget. For schemes that are funded by borrowing, postponing the scheme to future years will achieve revenue savings in the short-term by reduced interest and MRP payments. If capital receipts can be generated from asset sales this will further reduce the need to borrow and generate additional revenue savings.
61. As Table 4 below shows, the spend to the end of August, 5 months into the financial year, is £3,560,000 with the year-end forecast outturn expected to be on track. Further details are included in Appendix 2.

Table 4: Capital Programme (Gross expenditure)

	Original Budget 2023/24	Carry forwards & adjustments	Adjusted Budget	Spend to End Sept 2023	Forecast Outturn	Forecast Variance to Adjusted Budget
	£'000	£'000	£'000	£'000	£'000	£'000
Total	29,322	(10,051)	19,272	4,304	19,272	0

62. The capital programme is forecasting a nil variance.

Reserves

63. The forecast movement on reserves is shown in the table below:

	Opening Balance at 1 April 2023	Forecast Movement 2023-24	Closing Balance at 31 March 2024
	£'000	£'000	£'000
(1) General Reserve	(8,423)	4,181	(4,242)
(2) Capital Reserve	(150)	0	(150)
(3) Renewal and Repairs Reserve	(1,656)	915	(741)
(4) Risk Management Reserve	(315)	15	(300)
(5) Information Technology Reserve	(274)	25	(249)
(6) On-Street Car Parking Surplus Reserve	(40)	0	(40)
(7) Section 106 Reserve (Revenue)	(426)	49	(377)
(8) Revenues & Benefits Reserve	(255)	255	0
(9) Countryside Stewardship Reserve	(28)	3	(25)
(10) Monuments in perpetuity	(46)	1	(45)
(11) Ore Valley Reserve	(250)	0	(250)
(12) Invest to save and efficiency Reserve	(87)	12	(75)
(13) Resilience and Stability Reserve	(900)	900	0
(14) Redundancy Reserve	(565)	225	(340)
(15) Safer Hastings Partnership Reserve	(98)	22	(76)
(16) Disabled Facilities Grant	(1,374)	0	(1,374)
(17) Housing Licensing reserve	(277)	205	(72)
(18) Community Housing Reserve	(11)	0	(11)
(19) Controlling Migration	(116)	0	(116)
(20) Towns Fund	(236)	0	(236)
(21) Section 31 - Grant Reserve	(3,653)	3,653	0
(22) Green Energy	0	(150)	(150)
Total	(19,179)	10,311	(8,868)

64. The 2023/24 budget was set based on using a net contribution of £3.758m from reserves. This is comprised of £1.227m from Earmarked Reserves, £0.9m from the Resilience and Stability Reserve and £1.631m from the General Reserve.

65. The current 2023/24-year end forecast use of the General Reserve is £4.18m. This is £2.5m more than the budget agreed by Council in February as a result of Total Expenditure being above the £17.754m budget agreed.

66. The opening balance of the General Reserve has increased by £824k to £8.423m. Up until this stage work has been progressing on closing the 2022/23 statement of accounts, however, this is now completed, and balances have been confirmed (subject to audit) and revised for budget monitoring purposes. The opening balance on the Section 31 Grant Reserve has reduced by £2.683m. These changes are due to the use of the s31 grant reserve to repay central government for unspent government grants. Some of these repayments were initially forecast to have been financed from the General Reserve.

Review of PIER savings

67. Our external auditors observed that PIER savings are planned in detail within the council's annual budget process reports and savings identified are removed from the budgets once approved by Cabinet. They commented that there is opportunity to enhance reporting to Cabinet further by stating actual savings achieved compared to the original estimate.
68. It was recommended that management include the actual savings achieved against each PIER scheme following their implementation when reporting the outturn variance. This recommendation was accepted by the Council and reporting of the achievement of PIER savings was undertaken in the 2022/23 outturn report.
69. To take this a stage further we will now be reporting on the achievement of the 2023/24 PIER savings during the year as part of the budget monitoring process. Appendix 3 details the achievement of the savings in 2023/24 to date.
70. The 2023/24 budget identified net PIER savings of £1,162,550 and it is forecast that £77,550 of savings or 7% have been achieved at the end of August (Period 5).
71. Most savings have already been achieved and the budget reduced. Likewise, for the growth items, the budgets have been transferred to increase the budget, although potentially this may not be fully used this financial year and therefore could lead to savings upon further review.
72. It is now mainly dependant on the £1m saving of Temporary Accommodation costs to be achieved to generate any further improvement to the PIER savings list. As the majority of the savings planned for Temporary Accommodation were scheduled to be achieved in Q4 it is unlikely that we will see much improvement until later in the year. We will, however, continue to monitor the position on Temporary Accommodation closely.
73. If the growth items and Temporary Accommodation saving are excluded, then 80% of the savings targets have been achieved to date.
74. Some of the savings can be hard to quantify and for these a commentary has been provided to help in the understanding of the figures. The savings have been colour-coded (Red, Amber, Green) to enable quick identification of where savings may not be fully achieved. Growth items have been shaded in blue.

75. Appendix 3 only considers the PIER savings and does not look at other savings generated within the year or identify any non-related overspends.

MTFS Update

76. Due to a separate full MTFS being presented at Cabinet, no Appendix 4 will be included as part of this report.

Conclusion and Management Action

77. The revenue forecast outturn is that an additional £3.4m will be spent compared to the original budget this financial year. All service managers, but particularly those predicting a year end overspend, have been asked to identify savings to offset the variances where possible. If offsetting savings cannot be found, then reserves will need to be used to balance the budget.
78. The rise of inflation, particularly in relation to energy costs and staff pay demands, causes concern for the Council and is likely to have a significant impact on the year end position. The full impact on the year is uncertain and we will need to continue to monitor budgets closely and identify offsetting savings and further possible cost reductions to mitigate the effect.
79. Regular meetings between Members and officers are occurring to identify ways to reduce expenditure in the current year and future year budgets and a number of financial restrictions have been put in place since the 1st October 2023 and are detailed in the Medium Term Financial Strategy paper.
80. It should be noted that if it were not for the forecast overspend on Homelessness (£2.615m) the council would be reporting an overspend of £320,000 for the year which is less than the cost of the forecast increased pay offer to staff (£459,000). The council has set up the Homelessness Taskforce to cross departmental boundaries to identify and implement solutions to reduce the spiralling costs. This is recognised as a key corporate objective and work continues at pace. The graphs at paragraph 40 indicate the first tentative signs of a plateau, and potential reduction in the number of people in temporary accommodation, which is an encouraging sign.
81. There is a risk of potential delays to some capital programme schemes and variations in the year given the current climate and inflation increasing costs. Any slippage will be carried forward to future year capital budgets. Slippage on the capital programme could result in lower interest and MRP charges, delaying the impact to future years. The capital programme has been reviewed and where possible expenditure plans pushed out to future years to generate revenue savings on interest and MRP payments.
82. The further use of any reserves to balance the budget prejudices the potential to use reserves to fund future expenditure and would necessitate greater cuts to services and staff in future financial years to achieve a balanced budget and restore reserves to minimum recommended levels.

Timetable of Next Steps

83. Key actions and the scheduled dates:

Action	Key milestone	Due date (provisional)	Responsible
Continued monthly and quarterly monitoring	Each financial quarter	Relevant Cabinet meetings	Chief Finance Officer
Production of 2023/24 outturn Report	Financial year end (31/03/2024)	July 2024	Chief Finance Officer

Wards Affected

None

Implications

Please identify if this report contains any implications for the following:

Equalities and Community Cohesiveness	No
Crime and Fear of Crime (Section 17)	No
Risk Management	Yes
Environmental Issues	No
Economic/Financial Implications	Yes
Human Rights Act	No
Organisational Consequences	Yes
Local People's Views	No
Anti-Poverty	No

Additional Information

Appendix 1 Revenue Summary (August – Period 5)
Appendix 2 Capital Summary (August – Period 5)
Appendix 3 Achievement of the 2023/24 PIER savings during the year

Officer to Contact

Kit Wheeler
Chief Finance Officer